

Financial Statements

**Berrien Mental
Health Authority**

Benton Harbor, Michigan

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Berrien Mental Health Authority	County Berrien
Audit Date 9/30/04	Opinion Date 11/24/04	Date Accountant Report Submitted to State: 3/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Roslund, Prestage & Company, P.C.

Street Address

308 Gratiot Avenue

City

Alma

State

MI

ZIP

48801

Accountant Signature

[Handwritten Signature]

Date

3/28/05

Berrien Mental Health Authority
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INDEPENDENT AUDITOR'S REPORT

Berrien Mental Health Authority
Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Mental Health Authority (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

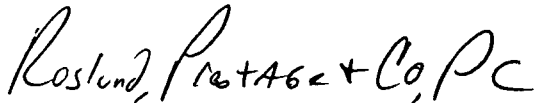
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on page 26 – 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 24, 2004

MANAGEMENT'S DISCUSSION and ANALYSIS

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

This section of the Berrien Mental Health Authority (BMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Summit Pointe (the Community Mental Health Authority of Calhoun County) is the designated Medicaid PIHP for a region consisting of Barry, Branch, Berrien, Calhoun, and Van Buren counties. BMHA is affiliated with and subcontracts for Medicaid funding through Summit Pointe, rather than directly with the state. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

In fiscal 2004, BMHA received a new source of revenue from MDCH entitled the Adults Benefit Waiver (ABW) program, authorized under Title XXI of the Social Security Act. This new program replaced and expanded upon the State Medical Program, and allowed for federal financial participation in its funding. To finance the ABW program, State General Fund Formula Funding to community mental health services programs, including BMHA, was reduced.

FINANCIAL HIGHLIGHTS

- Operating results showed a loss of \$258 thousand (after Medicaid Reinvestment Funds) of \$882,754 or .09% of revenue. Lapsed Medicaid revenue to Summit Pointe accounts for \$249 thousand of the \$258 thousand.
- Unrestricted net assets increased \$113 thousand or 9.7% to \$1.274 million.
- Capital assets increased \$459 thousand.
- Four Michigan Health Plan contracts were cancelled during the year

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide statements and fund statements.

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2004

	<u>2004</u>	<u>2003</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 6,682	\$ 11,606	\$(4,924)	-42.4%
Restricted assets	398	384	14	3.6%
Capital assets	735	601	135	22.4%
Total assets	<u>7,815</u>	<u>12,591</u>	<u>(4,776)</u>	-37.9%
<u>Liabilities</u>				
Current liabilities	3,382	7,272	(3,890)	-53.5%
Noncurrent liabilities	558	303	255	84.3%
Total liabilities	<u>3,940</u>	<u>7,575</u>	<u>(3,635)</u>	-48.0%
<u>Net Assets</u>				
Investment in capital assets	449	587	(138)	-23.5%
Restricted for Medicaid Savings	2,099	2,982	(883)	-29.6%
Restricted for risk management	53	286	(233)	-81.5%
Unrestricted	1,274	1,162	113	9.7%
Total net assets	<u>\$ 3,875</u>	<u>\$ 5,016</u>	<u>\$(1,141)</u>	-22.7%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$3.3 million, a decrease of \$1 million or 23.9%, compared to prior year. This decrease is primarily due to the transfer of Medicaid reserve funds to the PIPH.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, and amounts due to others.

At year-end, current liabilities include \$249 thousand of unspent Medicaid funding that is due to the PIPH under the local service area subcontract agreement. For the year, there were no state general funds left unspent and no amounts carried forward.

Restricted assets consist of cash and accrued interest receivable. These assets are restricted for payment of compensated absences and risk pool overruns. Restricted assets of \$398 thousand have increased \$14 thousand from the prior year.

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

Assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract. Amounts have been funded to this account in prior years. At year-end, the amounts expended under the state general fund risk contract exceeded the amounts provided by the state. To cover these expenditures, \$228 thousand of risk reserves were used. The balance in this restricted fund account has been reduced to \$53 thousand and is of the equivalent of 1% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2004, \$459 thousand was expended for capital acquisitions. Depreciation expense was \$324 thousand. The net change in capital assets was an increase of \$135 thousand for the year. When depreciation expense exceeds capital expenditures, the net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 20% of the original book value, compared to 19% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes PTO, (vested vacation and sick pay obligations) the long term portion of the telephone equipment loan and vehicle loans.

Restricted net assets include investment in capital assets, net of related debt, amounts restricted for Medicaid Savings Reinvestment and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$1.3 million, an increase of \$113 thousand or 9.7% for the year. Unrestricted net assets were 16.3% of total assets, up from 9.2% at the end of the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2004

Summary of Activities

For the years ended September 30, 2004 and 2003

(In \$000s)

	<u>2004</u>	<u>2003</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 20,217	\$ 18,542	\$ 1,675	9.0%
State general fund priority populations	4,903	5,703	(800)	-14.0%
Adult benefit waiver program	735	-	735	0.0%
MI Child	27	24		
Program service revenue	713	495	218	44.0%
Grants and earned contracts	581	538	43	8.0%
County appropriation	500	500	-	0.0%
Interest income	42	78	(36)	-46.2%
Other local income	28	37	(9)	-24.3%
TOTAL REVENUE	<u>27,746</u>	<u>25,917</u>	<u>1,826</u>	7.1%
<u>EXPENSE</u>				
Contractual providers	15,964	15,559	405	2.6%
Program operations	7,831	7,814	17	0.2%
Managed care administration	491	665	(174)	-26.2%
General & Board administration	3,893	3,798	95	2.5%
Local funds contributed to State	384	384	-	0.0%
Depreciation	324	307	17	5.5%
TOTAL EXPENSE	<u>28,887</u>	<u>28,527</u>	<u>360</u>	1.3%
NET (EXPENSE) OVER REVENUE	<u>\$ (1,141)</u>	<u>\$ (2,610)</u>	<u>\$ 1,466</u>	

Excess of Expense over Revenue from activities for the current year was \$1.1 million or 4% of revenue. This is a decrease of \$1.5 million or 56.2% from the prior year loss of \$2.6 million or 10.0% of prior year revenue.

Revenue for the year was \$27.7 million, an increase of \$1.8 million or 7% from the prior year.

Medicaid specialty supports and services revenue of \$20.2 million represents 72.9% of total revenue and increased \$1.7 million or 9.0% compared to the prior year. This increase is due to an increase in the number of Medicaid eligible persons. As previously discussed, the source of Medicaid specialty supports and service revenues were transferred from MDCH to a subcontract with Summit Pointe. As a result, an administrative cost was deducted from subcontract revenue, rather than being earned then charged as an expense. This subcontract is on a net cost not to exceed basis. Unspent Medicaid subcontract funds of \$249 thousand are not revenue and are shown as amounts due to the PIHP as discussed above.

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

For fiscal 2003, the source of Medicaid revenue changed. The Michigan Department of Community Health (MDCH) began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. BMHA affiliated with Summit Pointe as the designated PIHP for a region consisting of Barry, Branch, Berrien, Calhoun, and Van Buren counties. BMHA subcontracts for Medicaid funding through the PIHP, rather than directly with the state as in prior years. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

State general fund priority population revenue (formula funding) and (categorical) of \$4.9 million represents 17.7% of total revenue and decreased \$800 thousand or 14.0% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was no carry forward nor was there lapse of state general funds to MDCH in the current year.

Program service revenue of \$713 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. This represents 2.6% of total revenue and has increased \$218 thousand or 44.0% over the prior year. This revenue is becoming a significant source of local funds to meet match fund requirements and contribute to increased unrestricted fund balance.

Grants and earned contract revenue of \$581 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 2.1% of total revenue and have increased \$43 thousand or 8.0% from the prior year.

County appropriation revenue, interest income and other local income totaling \$570 thousand are available to meet state matching fund requirements. These revenue sources constitute 2.1% of revenue and have decreased \$46 thousand or 7.5% from the prior year. The county appropriation was unchanged. The decrease is attributable to interest and other sources.

Total expense of \$28.9 million has increased \$360 thousand or 1.3% compared to the prior year. Personnel expense of \$8.3 million is 28.7% of total expense and has increased \$890 thousand or 12.1%. Operating expense of \$20.2 million is 69.9% of total expense and has increased \$633 thousand or 3.2%. Increase in operating expense was primarily in utilization of state facilities and other contractual services.

BUDGET

The fiscal 2004 budget process was particularly challenging, given the change in the source of Medicaid contract and the reduction in General Fund revenue. Much of the year was operated on a continuation budget.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2004

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of BMHA is currently fair, balancing the priorities and budgets will become increasingly more difficult.

* * * * *

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Berrien Mental Health Authority
Statement Of Net Assets
September 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$5,993,661	\$10,751,082
Accounts receivable, net	470,712	515,976
Due from other governmental units	92,798	108,103
Prepaid items	124,489	230,349
Total current assets	<u>6,681,660</u>	<u>11,605,510</u>
Noncurrent assets		
Cash and cash equivalents - restricted	397,838	384,195
Capital assets - depreciable, net	735,480	600,854
Total noncurrent assets	<u>1,133,318</u>	<u>985,049</u>
Total assets	<u>7,814,978</u>	<u>12,590,559</u>
Liabilities		
Current liabilities		
Accounts payable	2,439,494	2,316,814
Accrued wages and other payroll liabilities	292,896	212,945
Due to other governmental units	576,080	4,735,155
Notes payable - current portion	73,108	6,714
Total current liabilities	<u>3,381,578</u>	<u>7,271,628</u>
Noncurrent liabilities		
Note payable - long-term portion	213,452	7,353
Compensated absences	344,931	295,648
Total noncurrent liabilities	<u>558,383</u>	<u>303,001</u>
Total liabilities	<u>3,939,961</u>	<u>7,574,629</u>
Net Assets		
Invested in capital assets, net of related debt	448,920	586,787
Reserved for Medicaid savings	2,098,833	2,981,587
Reserved for risk management	52,907	285,884
Unrestricted	1,274,357	1,161,672
Total net assets	<u>\$3,875,017</u>	<u>\$5,015,930</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Activities
For The Year Ended September 30, 2004 and 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$28,887,137</u>	<u>\$21,086,273</u>	<u>\$6,589,754</u>	(\$1,211,110)	(\$2,724,325)
General revenues					
Unrestricted investment earnings				36,668	65,152
Restricted investment earnings				5,289	13,437
Miscellaneous revenues				<u>28,240</u>	<u>35,382</u>
Total general revenues and contributions				<u>70,197</u>	<u>113,971</u>
Change in net assets				(1,140,913)	(2,610,354)
Net assets - beginning of year				5,015,930	6,762,934
Prior period adjustment				-	863,350
Net assets - end of year				<u>\$3,875,017</u>	<u>\$5,015,930</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Berrien Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2004 and 2003

	General Fund	
	2004	2003
Assets		
Cash and cash equivalents	\$5,552,808	\$8,720,250
Accounts receivable, net	470,712	515,976
Due from other funds	387,946	161,483
Due from other governmental units	92,798	108,103
Prepaid items	124,489	230,349
Cash and investments - Restricted	397,838	384,195
Total Assets	<u>\$7,026,591</u>	<u>\$10,120,356</u>
Liabilities		
Accounts payable	\$2,439,494	\$2,316,814
Accrued wages and other payroll liabilities	292,896	212,945
Due to other governmental units	576,080	3,151,690
Total liabilities	<u>3,308,470</u>	<u>5,681,449</u>
Fund balances		
Reserved for prepaid items	124,489	230,349
Reserved for Medicaid savings	2,098,833	2,981,587
Reserved for compensated absences	344,931	295,648
Unreserved	1,149,868	931,323
Total fund balances	<u>3,718,121</u>	<u>4,438,907</u>
Total liabilities and fund balances	<u>\$7,026,591</u>	<u>\$10,120,356</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Reconciliation Of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement Of Net Assets
For The Year Ended September 30, 2004

Total fund balance - governmental funds	\$3,718,121
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,713,661
Deduct: accumulated depreciation	(2,978,181)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	52,907
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(286,560)
Deduct: Compensated absences	(344,931)
Net assets of governmental activities	<u>\$3,875,017</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2004 and 2003

	General Fund	
	2004	2003
REVENUES		
State Grants		
Department of Community Health Contract		
General Fund Formula And Categorical	\$4,903,441	\$5,703,586
Adult Benefit Waiver	734,713	-
MI Child Capitation	27,078	24,686
Other State Grants	26,278	118,118
Total State Grants	<u>5,691,510</u>	<u>5,846,390</u>
Federal Grants	<u>398,244</u>	<u>292,831</u>
Contributions - Local Units		
County Appropriations	<u>500,000</u>	<u>500,000</u>
Charges For Services		
Medicaid - Venture Contract	20,216,609	18,926,453
Client And Third Party Pay	713,436	495,422
Other Contract Revenue	156,228	126,628
Total Charges For Services	<u>21,086,273</u>	<u>19,548,503</u>
Interest And Rents		
Interest	<u>36,668</u>	<u>65,152</u>
Other Revenue		
United Way	22,999	23,528
Miscellaneous	5,241	14,294
Total Other Revenue	<u>28,240</u>	<u>37,822</u>
Total Revenues	27,740,935	26,290,698

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2004 and 2003

	General Fund	
	2004	2003
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel Costs	\$8,271,164	\$7,381,586
Operating Expenditures	20,222,857	19,590,200
Capital Outlay	459,083	146,767
Debt Service	70,262	7,387
	<u>29,023,366</u>	<u>27,125,940</u>
Total Expenditures		
	<u>29,023,366</u>	<u>27,125,940</u>
Excess Of Revenues Over Expenditures	(1,282,431)	(835,242)
Other Financing Sources (Uses)		
Loan Proceeds	333,865	-
Operating Transfers In (Out)	227,780	173,254
	<u>561,645</u>	<u>173,254</u>
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(720,786)	(661,988)
Fund Balance, October 1	4,438,907	4,237,545
Prior Period Adjustment	-	863,350
	<u>-</u>	<u>863,350</u>
Fund Balance, September 30	<u>\$3,718,121</u>	<u>\$4,438,907</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended September 30, 2004

Net change in fund balances - total governmental funds (5720,786)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add: capital outlay	459,083
Deduct: depreciation expense	(324,457)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

(232,977)

Payment of principal on long-term debt is an expenditure in the governmental funds,
but not in the statement of activities (where it reduces long-term debt).

61,372

Fixed assets acquired by long term loans are shown as an expenditure and other financing
source in the governmental funds. The other financing source must be
removed from the statement of activities; principal payments are applied
to the long term liability; interest expense is recognized as it accrues.

(333,865)

Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Less: increase in accrual for compensated absences	(49,283)
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Change in net assets of governmental activities	<u>(\$1,140,913)</u>
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See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Net Assets
Proprietary Funds
September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	<u>\$440,853</u>	<u>\$2,030,832</u>
Liabilities		
Due to other funds	\$387,946	\$161,483
Due to other governmental units	<u>-</u>	<u>1,583,465</u>
Total liabilities	<u>387,946</u>	<u>1,744,948</u>
Net Assets		
Restricted	<u>52,907</u>	<u>285,884</u>
Total liabilities and net assets	<u>\$440,853</u>	<u>\$2,030,832</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Revenues, Expenses And Changes In Fund Net Assets
Proprietary Funds
For The Years Ended September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Non-operating revenues (expense)		
Interest income	\$5,289	\$13,437
Operating transfers		
Operating transfers out - other funds	(227,780)	(173,254)
Operating transfers out - other governmental units	<u>(10,486)</u>	<u>(1,583,465)</u>
Total operating transfers	(238,266)	(1,756,719)
Change in net assets	(232,977)	(1,743,282)
Net assets, beginning of year	<u>285,884</u>	<u>2,029,166</u>
Net assets, end of year	<u><u>\$52,907</u></u>	<u><u>\$285,884</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Cash Flows
Proprietary Funds
For The Years Ended September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers out - other governmental units	(\$1,593,951)	-
Operating transfers out - other funds	(1,317)	(\$24,555)
Cash flows from investing activities		
Proceeds from interest earnings	<u>5,289</u>	<u>13,437</u>
Net increase (decrease) in cash	(1,589,979)	(11,118)
Cash and cash equivalents, October 1	<u>2,030,832</u>	<u>2,041,950</u>
Cash and cash equivalents, September 30	<u><u>\$440,853</u></u>	<u><u>\$2,030,832</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Berrien Mental Health Authority
Notes To The Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Berrien Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The significant changes included in Statement No. 34 include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Berrien County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Berrien Mental Health Authority
Notes To The Financial Statements

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported separately in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Berrien Mental Health Authority
Notes To The Financial Statements

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Berrien Mental Health Authority
Notes To The Financial Statements

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Berrien Mental Health Authority
Notes To The Financial Statements

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Cash – Restricted

Cash is restricted for the future payment of compensated absences, since these amounts have been charged to the Department of Community Health. Additionally, cash is restricted for funds the Authority holds on behalf of certain clients.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Berrien Mental Health Authority
Notes To The Financial Statements

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Fixed Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer Equipment	5
Furniture, Fixtures and Equipment	5 - 10
Vehicles	4

Berrien Mental Health Authority
Notes To The Financial Statements

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Compensated Absences

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present expenditures and the related liability when these compensated absences are earned.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings and compensated absences are examples of the latter.

Inpatient

The amount recorded for inpatient liability is based on management's estimate. This estimate is based on 1) the number of clients at each DCH facility, 2) the number of days each client is at the DCH facility, and 3) the daily rate charged by each DCH facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Berrien Mental Health Authority
Notes To The Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 27 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Deposits and Investments

At year end, the carrying amount of deposits for the Authority was \$6,391,024, and the bank balance was \$7,146,128. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

	2004	2003
Cash and cash equivalents	\$5,993,186	\$10,750,607
Cash and cash equivalents - restricted	397,838	384,195
Petty cash	475	475
Total	\$6,391,499	\$11,135,277

Berrien Mental Health Authority
Notes To The Financial Statements

Due From Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2004	2003
Department of Community Health – OBRA	\$53,397	\$92,852
Department of Community Health – PATH Grant	-	15,251
Calhoun Community Mental Health Authority	39,401	-
Total	\$92,798	\$108,103

Capital Assets

A summary of changes in the Authority's capital assets is as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Furniture, Fixtures and Equipment	\$2,290,434	\$412,453	-	\$2,702,887
Vehicles	82,141	46,630	-	128,771
Capital Lease Obligations	882,003	-	-	882,003
Sub-totals	3,254,578	459,083	-	3,713,661
Accumulated Depreciation	2,653,724	324,457	-	2,978,181
Totals	\$600,854	\$134,626	-	\$735,480

The proprietary fund did not have any fixed assets as of September 30, 2004.

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Berrien Mental Health Authority
Notes To The Financial Statements

Due To Other Governmental Units

As of September 30, this liability consists of the following:

	2004	2003
State of Michigan – State Inpatient/Residential Care	\$327,192	\$291,512
MDCH – Cost Settlement – 2003 Year	-	3,308
Calhoun County CMH Authority -- Medicaid Cost Settlement	248,888	1,767,704
Calhoun County CMH Authority – Medicaid Savings	-	1,089,166
Calhoun County CMH Authority – Transfer of Internal Service Funds	-	1,583,465
Total	\$576,080	\$4,735,155

Long Term Liabilities

Compensated Absences

Authority policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. As of September 30, 2004 and 2003, this liability was \$344,931 and \$295,648, respectively.

Vehicle Lease

During the 2002 fiscal year, the Authority entered into a capital lease contract for the purchase of a vehicle. Payments are due monthly in the amount of \$568, including interest at the rate of .9% per annum. As of September 30, 2004 and 2003, the balance of this loan was \$7,442 and \$14,067, respectively.

During the 2004 fiscal year, the Authority entered into two loan agreements for the purchase of two vehicles. Payments are due monthly in the amount of \$1,106, including interest at the rate of 6.49% per annum. As of September 30, 2004 and 2003, the balance of these loans was \$41,440 and \$0, respectively.

Berrien Mental Health Authority
Notes To The Financial Statements

Telephone System Loan

During the 2004 fiscal year, the Authority entered into a loan agreement for the purchase of a telephone system. Payments are due monthly in the amount of \$5,165, including interest at the rate of 2.99% per annum. As of September 30, 2004 and 2003, the balance of this loan was \$237,678 and \$0, respectively.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2004 are as follows, including total interest payments of \$26,858.

Year Ended September 30,	Amount
2005	\$82,065
2006	76,383
2007	75,247
2008	69,719
2009	10,004
2010 and thereafter	-0-

The changes in long term liabilities during the 2004 fiscal year are as follows:

Liability	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004
Compensated Absences	\$295,648	\$49,283	-	\$344,931
Vehicle Loans	14,067	46,630	\$11,815	48,882
Telephone System	-	287,235	49,557	237,678
Totals	\$309,715	\$383,148	\$61,372	\$631,491

Berrien Mental Health Authority
Notes To The Financial Statements

Leases

The Authority has entered into various operating leases for the use of real property and vehicles. Operating leases do not give rise to property rights or lease obligations, and therefore, are not capitalized.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	475,986
2006	441,407
2007	427,847
2008	429,047
2009	214,670
2010 – 2014	590,343

NOTE 4 - OTHER INFORMATION

Risk Management

Internal Service Funds

During the September 30, 1999 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund. Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the contract requirements than revenue provided by the contract.

Berrien Mental Health Authority
Notes To The Financial Statements

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000,000 for property and crime. The contribution made by the Authority to the MMRMA was \$104,280 for the period July 1, 2003 to July 1, 2004.

Retirement System

401(a) Money Purchase Plan

Effective January 1, 1998, the Authority was registered as a new governmental entity, due to Authority Status. Accordingly, the employees of the Authority voted to join a 401(a) Money Purchase Plan instead of participating in the Social Security system.

Employees of the Board contribute a mandatory 6.2% of their wages to this plan. Employer contributions for the years ended September 30, 2004 and 2003 were 4.9% of employee wages.

Berrien Mental Health Authority
Notes To The Financial Statements

Pension Plan

Substantially all employees of the Authority are covered by the County of Berrien's contributory pension plan (the "plan"). The payroll for Authority employees covered by the plan for the 2003 calendar year was \$5,476,083; the Authority's total payroll for the 2004 fiscal year aggregated \$6,403,603.

All Authority employees who work more than 1,000 hours per year are eligible to participate in the plan. Members who retire at or after age 60 with 5 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.7% of their final 5-year average earnings, as defined, for each year of credited service.

Vested employees may retire on or after age 55 with 5 years of service, or after 25 years of service regardless of age, and receive reduced retirement benefits. The plan also provides death and disability benefits.

Covered employees are required to contribute 4.5% of their salary to the plan. The Authority contributes a percentage of payroll calculated and recommended each year by the plan's actuary. For the years ended September 30, 2004 and 2003, the Authority contributed \$66,257 and \$40,168, respectively, to this retirement plan.

The actuarial accrued liability at December 31, 2003 (the date of the most recent available information) for the plan as a whole, determined through an actuarial valuation performed as of that date, was \$102.9 million. The plan's valuation assets at December 31, 2003 were \$116.4 million resulting in funding in excess of the actuarial accrued liability of \$13.5 million. Valuation assets, determined by the actuary, are equal to reported fair value assets, adjusted for amortization of actuarial gains and losses.

For Berrien Mental Health Authority, the actuarial accrued liability at December 31, 2003, determined through an actuarial valuation performed as of that date, was \$8.6 million. The plan's valuation assets allocated to the Authority at December 31, 2003 were \$13.7 million resulting in funding in excess of the actuarial accrued liability of \$5.1 million.

Historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due, and other information regarding the plan, is presented in the financial statements of the county of Berrien, Michigan for the year ended December 31, 2003.

In addition to pension benefits, employees of the Authority who retire under provisions of the plan may elect to continue their hospitalization and health care insurance coverage, provided they pay fifty percent of the actual cost of premiums.

Berrien Mental Health Authority
Notes To The Financial Statements

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Venture Contract

Beginning October 1, 2002, the Medicaid Funds for Barry, Berrien, Branch, Calhoun and Van Buren Counties will be paid to Calhoun County Community Mental Health Authority, also known as Summit Pointe. The contract for these Medicaid Funds will be between the MDCH and Summit Pointe, and will be administered by a division of Summit Pointe, known as Venture. Venture is an administrative board and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITFRA). The Venture administrative board consists of two voting Members from each of the five member counties.

Summit Pointe in turn contracts with Berrien Mental Health Authority for Medicaid funding.

Prior Period Adjustment – 2003 Year

During the 2002 year, the Department of Community Health wrongfully seized \$997,273 from the Authority, representing the unspent balance of 1999 Medicaid Savings. The Authority did not agree with the Department of Community Health's position on this issue and sued them, requesting return of these funds.

During the 2003 year, this issue was resolved at the Circuit Court level by ordering the Department of Community Health to return these funds to the Authority. Accordingly, the receipt of \$997,273 by the Authority was recognized as a prior period adjustment.

An additional \$133,923 was recognized as prior period adjustments during the 2003 year, with the majority being changes in prior year cost settlements with the Department of Community Health.

REQUIRED SUPPLEMENTAL INFORMATION

Berrien Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Department of Community Health Contract				
General Fund Formula And Categorical	\$5,420,740	\$4,858,449	\$4,903,441	\$44,992
Adult Benefit Waiver	-	756,060	734,713	(21,347)
MI Child Capitation	23,645	23,645	27,078	3,433
Other State Grants	-	-	26,278	26,278
Total State Grants	<u>5,444,385</u>	<u>5,638,154</u>	<u>5,691,510</u>	<u>53,356</u>
Federal Grants	<u>365,161</u>	<u>387,210</u>	<u>398,244</u>	<u>11,034</u>
Contributions - Local Units				
County Appropriations	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Charges For Services				
Medicaid - Venture Contract	21,154,541	20,645,269	20,216,609	(428,660)
Client And Third Party Pay	529,008	600,451	713,436	112,985
Other Contract Revenue	143,425	130,092	156,228	26,136
Total Charges For Services	<u>21,826,974</u>	<u>21,375,812</u>	<u>21,086,273</u>	<u>(289,539)</u>
Interest And Rents				
Interest	<u>77,258</u>	<u>34,427</u>	<u>36,668</u>	<u>2,241</u>
Other Revenue				
United Way	20,000	21,040	22,999	1,959
Miscellaneous	20,139	14,784	5,241	(9,543)
Total Other Revenue	<u>40,139</u>	<u>35,824</u>	<u>28,240</u>	<u>(7,584)</u>
Total Revenues	28,253,917	27,971,427	27,740,935	(230,492)

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$8,104,718	\$8,225,965	\$8,271,164	(\$45,199)
Operating expenditures	20,391,594	19,570,966	20,222,857	(651,891)
Capital outlay	-	-	459,083	(459,083)
Debt service	-	-	70,262	(70,262)
Total expenditures	<u>28,496,312</u>	<u>27,796,931</u>	<u>29,023,366</u>	<u>(1,226,435)</u>
Revenues over (under) expenditures	(242,395)	174,496	(1,282,431)	(1,456,927)
Other financing sources (uses)				
Loan proceeds	-	-	333,865	333,865
Operating transfers in (out)	-	-	227,780	227,780
Excess of revenues and other sources over expenditures and other uses	(242,395)	174,496	(720,786)	(895,282)
Fund balance, beginning of year	<u>4,438,907</u>	<u>4,438,907</u>	<u>4,438,907</u>	<u>-</u>
Fund balance, end of year	<u>\$4,196,512</u>	<u>\$4,613,403</u>	<u>\$3,718,121</u>	<u>(\$895,282)</u>

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTAL INFORMATION

BERRIEN MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF PERSONNEL COSTS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 and 2003

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
Personnel Costs		
Salaries And Wages	\$6,403,603	\$5,852,990
Fringe Benefits	<u>1,867,561</u>	<u>1,528,596</u>
 Total Personnel Costs	 <u><u>\$8,271,164</u></u>	 <u><u>\$7,381,586</u></u>

See Accompanying Notes To Financial Statements

BERRIEN MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2004 and 2003

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
Operating Expenditures		
Communications	\$150,866	\$131,331
Contractual Services	1,571,200	1,468,712
Grant Expense	152,991	134,295
Health Care Expenses	15,953,810	15,553,013
Insurance	208,487	54,804
Legal And Accounting	156,246	281,812
Local Funds Contribution	384,498	384,498
Rents	511,613	438,878
Repairs And Maintenance	298,160	316,637
Staff Development	154,236	139,054
Supplies and Other	389,953	434,102
Travel	141,349	141,549
Utilities	98,817	64,989
Venture Services	<u>50,631</u>	<u>46,526</u>
 Total Operating Expenditures	 <u><u>\$20,222,857</u></u>	 <u><u>\$19,590,200</u></u>

See Accompanying Notes To Financial Statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Berrien Mental Health Authority
Benton Harbor, Michigan

We have audited the basic financial statements of the Berrien Mental Health Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Berrien Mental Health Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berrien Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Berrien Mental Health Authority, in a separate letter dated November 24, 2004.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 24, 2004



MANAGEMENT LETTER

Board of Directors
Berrien Mental Health Authority
Benton Harbor, Michigan

In planning and performing our audit of the financial statements for Berrien Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 24, 2004 on the financial statements of Berrien Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 24, 2004

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Authority perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

This assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

Perform a Fraud Risk Assessment (continued)

- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Perform a Fraud Risk Assessment (continued)

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Perform Surprise Payroll Pay-outs

Due to the existence of several locations and the centralization of payroll, and as a precaution against the use of fictitious employees, we recommend that an individual independent of the payroll function perform periodic surprise pay-outs. This individual should distribute pay checks to each employee and to verify identification. If an employee is sick or on vacation during the pay-out, that check should be held for the employee in a safe. When the employee returns, the check should then be given by the same individual to the employee.